

KOFEX OPENS NEW FUTURES AND OPTIONS

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Foreword

The Korea Futures Exchange (KOFEX) is going to open a new market for derivative products—dollar futures and options, CD futures, and gold futures—in April after long preparation since early 1990s. The newly introduced derivatives are expected to open a new horizon for the Korean financial and commodity fields by providing Korean market participants with opportunities for investment and for risk management.

The new derivative products were well designed for the purpose of securing investor confidence by promoting a high degree of liquidity, fairness, and trade convenience. The KOFEX's derivatives are also equipped with safeguards such as a daily price limit, circuit breaker, compensation fund, and surveillance control in order to protect market participants. The KOFEX is in charge of clearing the new derivatives trading by acting as the contract partner in every transaction, thereby guaranteeing the settlement of any transaction.

The KOFEX plans to launch government bond futures in mid-1999 following the successful establishment of the dollar futures and options, CD futures, and gold futures. It will help meet the more diversified needs of the investment community at home and abroad.

Products To Be Traded on KOFEX

Dollar futures are contracts for trading in US Dollars. Trading units and minimum price change of dollar futures are US\$50,000 and 0.2 won (equivalent to 10,000 won), respectively. These futures contracts

can extend to a maximum of one year covering up to four contract months, and will have a final settlement day to be determined by KOFEX in each of the contract months as spot and following two months, March, June, September, and December. The last trading day of the product will be two business days immediately preceding the final settlement day (third Wednesday of each contract month). The first trading day for a new contract month will be the first business day following the last trading day for the expiring contract month.

CD interest rate futures are contracts for trading in negotiable certificates of deposit with 91-day actual maturity. The trading unit is the notional principal amount of Korean Won 500 million. The

futures price of CDs is shown as a numerical value equal to 100.00 less the annual interest rate (expressed as a percentage on a 91/365-4-day basis). The minimum price change is 0.01 won, equivalent to 12,500 won. The contract month for CD futures will be composed of 4 contract months of March, June, September and December. The last trading day will be business days immediately preceding the final settlement day, which will be the third Wednesday of the contract month.

Gold futures are contracts for trading in fine gold bars of minimum 99.99% purity. The trading unit and minimum price change are 1 Kilogram and 10 won per gram (tick value = 10,000 won), respectively. Gold futures contracts will cover up to six contract months as February, April, June, August, October and

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Table 1. Contract Specification

	dollar futures	CD futures	gold futures	dollar options
Underlying Instruments	KRW/USD SPOT	Certificate of Deposit with 91-days maturity	Fine gold bar of minimum 99.99% purity	KRW/USD SPOT
Contract Size	US\$50,000	Won 500 mil. (face value)	1 Kg	US\$10,000
Contract Months	spot & following 2 months and 3 quarterly months	March, June, September, December	Six even number months	spot & following 2 months and 3 quarterly months (7 Strike Prices for each months: 3ITM, 1ATM, 3OTM)
Price Quotation	won/dollar	100-R (R: annual interest rate)	Won	won/dollar
Minimun Price Fluctuation	Won 0.2 (tick value = Won 10,000)	1basis point (tick value = Won 12,500)	₩10 per gram (tick value = Won 10,000)	₩0.2 over ₩25 prem. (1tick = won 2,000), ₩0.1 below ₩25 prem. (1tick = won 1,000)
Daily Price Limit	None	None	None	None
Position Limit	decide when exchange is necessary	Same as Left	Same as Left	Same as Left
Trading Hour (Mon. ~ Fri.)	9:30~16:30 (last trading day : 9:30~11:30)	9:30~15:00 (last trading day : 9:30~11:30)	9:30~16:30 (last trading day : 9:30~11:30)	9:30~16:30 (last trading day : 9:30~11:30)
Last Trading Day	2 business days immediately preceding final settlement day	business day immediately preceding final settlement day	business day immediately preceding the delivery day	2 business days immediately preceding 3rd Wednesday of contract month.
Mark-to-Mark Price	weighted average price of last 2 or 3 minutes	Same as Left	Same as Left	Same as Left
Method of Final Settlement	Physical delivery settlement	Cash Settlement	Physical delivery settlement	Physical delivery according to the exercise and assignment
Excercise Style				European style
Option Type	-	-	-	Call & Put
Strike Interval				Won 25

December. Last trading day will be two business days immediately preceding the final settlement day (the last business day of contract month).

US dollar currency options, similar to Dollar Futures, are contracts for trading US dollars. The trading unit is US\$10,000, and the minimum price change is 0.2 won when the option premium is over 25 won (tick value = 2,000 won) and 0.1 won when premium is below 25 won (tick value = 1,000 won). There are seven exercise prices to be fixed initially, three below and three above the central price, at intervals of 25 won. These are subject to addition or elimination according to the price movements of the US dollar. The last trading day and settlement day for the US dollar options are all same as US dollar futures.

Trading Procedure

1. Opening transaction accounts

An investor wanting to trade dollar futures and options, or CD and gold futures must open an account with a futures company. Foreigners must register with the Financial Supervisory Board (FSB) and obtain an ID card before opening an account. The futures company must deliver its client document that explains the KOFEX's derivatives trading and the risk.

2. Payment of customers' margin

Investors shall pay the customers' margin, which will be 3%~6.5% of an order size before placing an order, calculated by KOFEX OMS II (Option Markets II) portfolio based margin system. The KOFEX OMS II margin system evaluates risks inherent in a whole portfolio of unsettled futures and options transactions of each customer and calculates margin. The customer's margin is expected to be about 6% per contract size of dollar futures, 3% CD futures, and 6.5% gold futures, based on the current KOFEX OMS II system. The customers' margin may be deposited in the form of securities, such as stocks listed in the Korean Stock

Market, government bonds, municipal bonds and corporate bonds issued by juristic persons listed on the Korean Stock Exchange.

3. Order Placing

Investors may place orders by telephone, fax, PC telecommunication, or in person, indicating whether the order is for a opening or offsetting transaction. The futures company transmits the order to the KOFEX. Investors will be allowed to placing several types of orders such as Market Order, Limit Order and Combination Orders (FOK; Fill or Kill, FAK; Fill and Kill, FAS; Fill and Store).

4. Confirmation of Transaction and Margin Call

The KOFEX executes orders in order of price, time and size priority through a computerized trading system and transmits the trade details to the securities company, which then informs the investor.

After the futures or options trading closes, the futures companies report offsetting transactions to the KOFEX. Members pay (withdraw) margins to (from) the KOFEX according to their positions. The futures companies calculate the gain and loss of customers' open positions and check if customers' margin is sufficient for maintenance margin. In case the maintenance margin is insufficient, additional margin must be paid up to initial margin level by 12:00 on the next day. The additional margin may be deposited in cash.

5. Settlement

Positions are settled through offsetting transactions or final physical delivery on the dollar futures and options and gold futures or cash settlement on the CD futures on the last trading day. In case of dollar options, physical delivery occur through option exercise and allocation before final trading day. VIP